

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Morrow Analyst: Kristina E. North Bill Number: SB 558

Related Bills: See Prior Analysis Telephone: 845-6978 Amended Date: May 16, 2001

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Employer Public School or Vocational Institutional Math or Science Teachers Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 22, 2001.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 22, 2001, STILL APPLIES.

X OTHER - See comments below.

## SUMMARY

This bill would create a credit for employers who lend an employee to a public school or vocational institution to teach math or science.

## SUMMARY OF AMENDMENTS

The May 16, 2001 amendments would:

- ◆ Include teaching supplies, class materials, and equipment as qualified expenses for this credit.
- ◆ Define mathematics and science;
- ◆ Define preparation time to include time spent preparing lesson plans, grading assignments and exams, holding office hours to meet with students and/or parents, and commuting to and from the school;
- ◆ Specify that a credit would be allowed only if:
  - The employing school district certifies that the employee has been issued, or is eligible for the issuance of an eminence credential and the school district has determined in writing that no teacher possessing a valid credential or authorization to teach mathematics or science was reasonably available; and

Board Position:

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Legislative Director

Date

Brian Putler

05/31/01

- The high school includes in the loaned employee's service record verification of the employee's eminence credential or eligibility thereof and a copy of the school district's written determination that no credentialed teacher was reasonably available.
- ◆ Limit the carryover period to eight years.

The April 18, 2001, amendment specified a credit amount of 50% of the qualified expenses.

The April 18, and May 16, 2001, amendments would resolve or partially resolve most of the implementation concerns discussed in the department's analysis of the bill as introduced February 22, 2001. The remaining implementation concerns are restated below, as well as some new implementation concerns and policy concerns. Except for the changes discussed in this analysis, the remainder of the department's analysis of the bill as introduced still applies.

## **POSITION**

Pending.

## **IMPLEMENTATION CONSIDERATIONS**

The department has identified the following implementation concerns.

- ◆ The terms "teaching supplies, class materials, and equipment" are very broad and open to interpretation, potentially allowing unintended expenses to be claimed for this deduction. Additionally, as written an employer could claim a deduction for the purchase of equipment. For example, a computer that is retained by the employer after the employee loan and used for purposes other than those intended by this bill.
- ◆ "Employment specialty" should be defined to ensure the credit is given in accordance with the author's intent.
- ◆ It is unclear if a "vocational institution" would include private schools or adult educational institutions. A definition for "vocational institution" would assist the department's administration of this credit.
- ◆ Clarification is needed to determine if "qualified expenses" would include the direct/indirect wages and related employee benefit costs for the loaned employee.

## **Policy Considerations**

A taxpayer currently employed as a schoolteacher cannot deduct expenses for commuting. Further, only in certain, limited circumstances may teachers deduct expenses for teaching supplies, class materials and equipment. Therefore, it appears inequitable to allow a deduction for these expenses for an employee filling a schoolteacher's position.

### Tax Revenue Estimate

Based on data and assumptions discussed below, revenue losses from this bill are projected to be as follows:

Estimated Revenue Impact of SB 558 As Amended May 16, 2001 Years After 12/31/00 To Sunset Dates Enactment Assumed After 6/30/01			
Fiscal Years	2001/2002	2002/2003	2003/2004
Revenue Impact	-\$1.5	-\$1.5	-\$1.5

Any possible changes in employment, personal income, or gross state product that might result from this measure are not taken into account.

### Tax Revenue Discussion

Revenue losses would depend on the number of qualified employees loaned to California public high schools or community colleges, and vocational institutions for teaching targeted classes, the amount of total qualified wages and other qualified expenses paid or incurred by employers, and their respective income tax liabilities. This estimate was based on available information pertaining to math and science teachers in qualified schools.

- ◆ According to the California Department of Education, the number of math and science teachers in California public schools K-12 was nearly 26,800 in full time equivalents (FTE) during the school year 1997/1998 (over 10% of total teachers). From over 4,900 math and science teachers who were projected to be hired for California public schools in year 2000/2001, over 3,300 would teach in grades 9 to 12.
- ◆ The California Department of Education estimated that around 500 teachers (full time equivalents) would be hired during 2000/2001 for other (unspecified) classes, from which 200 teachers (40%) were assumed to teach computer science in grades 9-12.
- ◆ Based on an estimate from the Community Colleges Chancellor's Office, there is a demand for an additional 10% of math and science teachers (over 400 teachers in FTE).
- ◆ It was assumed that loaned employees under these conditions would constitute 1% of specified public schools certified hires for math and science classes and 5% for classes in computer science. It was also assumed, as previously, that employees teaching classes for whom employers do not forfeit work time on the job (e.g., evening classes) do not qualify employers for this credit.
- ◆ Since there is no definition for "vocational institutions", it is assumed that the number of loaned employees to all California vocational institutions would be equivalent to that for community colleges.
- ◆ This amendment does not specify the kind and/or limits on the teaching supplies, equipment, etc. eligible for the credit. It was assumed that it would amount to an additional 5% of loaned employee expenses incurred by employers.

- ◆ Total qualified employer expenses for these employees are projected to be on the order of \$3 million based on a yearly salary of \$50,000 paid on average to loaned employees for their teaching activities plus \$2,500 of other expenses (on average) paid or incurred for other teaching expenses per loaned employee.
- ◆ At a 50% tax credit (with the deduction offset considered), revenue losses would be on the order of \$1.5 million annually.

#### **LEGISLATIVE STAFF CONTACT**

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